

BDO MALTA

TRANSPARENCY REPORT 2010



BDO

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TRANSPARENCY REPORT

This transparency report has been drawn up in terms of the European Union's 8th Company Law Directive, the Accountancy Profession Act Cap 281, and the Accountancy Profession Regulations 2009.

1. Legal Structure and ownership

BDO Malta is a civil partnership made up of three equity partners and one salaried partner. It is owned by the equity partners, Details of the partners are available at www.bdo.com.mt.

The firm provides audit and assurance services, tax and other non-assurance services. It holds a licence to practice as an audit firm in terms of the Accountancy Profession Act.

Other services to clients are provided principally through BDO Consult Limited and BDO Services Limited. BDO Malta can trace its origins back to 1978. It became a correspondent of the BDO network in 1988 and a member firm in 1990.

The firm operates from offices in Msida, Malta.

2. BDO International

BDO Malta is a Member Firm of BDO International.

2.1 Description of the network

The BDO network is an international network of public accounting firms, the BDO member firms, which perform professional services under the name and style of BDO. BDO is the brand name for BDO network and all BDO member firms. 'BDO' and 'BDO International' are trademarks of Stichting BDO.

2.2 Legal and structural arrangements in the network

Each BDO member firm is a member of BDO International Limited, a UK company limited by guarantee, either as a voting member (one per country) or a non-voting member.

The BDO network is governed by the Council, the Policy Board and the Executive (or Global Leadership Team) of BDO International Limited.

The Council comprises one representative from each voting member and comprises the members of BDO International Limited in general meeting. The Council approves budgets, appoints the Policy Board and

approves any changes in the Articles and Regulations of BDO International Limited.

The Policy Board, which is the Board of Directors of BDO International Limited, currently comprises a representative of the network's five largest member firms, whose appointment, each for a three year term, is approved by the Council. The Policy Board sets policies and priorities for the network and oversees the work of the Global Leadership Team. The Policy Board meets at least four times a year and more if required.

The Global Leadership Team is tasked with coordinating the activities of the network on a day-to-day basis. It is headed by the CEO and comprises the Global Heads of Audit & Accounting, Tax, People, Client Service, Network Development and the International Secretary.

Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a Belgian limited liability company with its seat in Brussels.

BDO International Limited and Brussels Worldwide Services BVBA do not provide any professional services to clients. This is the sole preserve of the BDO member firms

Each of BDO International Limited, Brussels Worldwide Services BVBA and the BDO member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of BDO shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide services BVBA and/or the BDO member firms.

The global aggregated turnover for BDO member firms (including their exclusive Alliances) in 119 countries for the year ended 30 September 2010 was in excess of €3,800 million (2009: €3,700 million). Partner and staff numbers at 30 September 2010 were some 46,900 (2009: 46,000).

3. Governance structure

The activities of BDO Malta are managed by the partners. The Managing Partner is John Attard, and John Psaila is the International Liaison Partner. John Psaila is also responsible for administration and human resources.

Meetings of the partners are held periodically as and when required.

4. Internal quality control

The firm continually strives to achieve high quality standards in the services provided. In achieving this it is the firm's policy:

1. to ensure quality in all assignments performed;
2. to ensure that commercial considerations never override the quality of performance;
3. to ensure that sufficient resources are devoted to the development and support of the firm's quality control policies and procedures; and
4. to ensure that all audit work is controlled and signed off by the partners.

The firm's system of internal quality control is designed to provide reasonable assurance that the firm, its partners and staff comply with professional standards and regulatory and legal requirements, work is performed to a consistently high standard and that reports issued by the firm are appropriate.

The firm's system of internal quality control can be split into the following elements:

- leadership responsibilities for quality within the firm;
- ethical requirements;
- acceptance and continuance of client relationships and specific engagements;
- human resources;
- engagement performance;
- monitoring.

4.1 Leadership responsibilities for quality within the firm

Quality control is dependent upon an organisational structure which is inherently sound and which clearly defines the responsibilities of the various levels of management.

The principal in charge of compliance is John Attard. The Ethics Principal is John Psaila.

The partners have ultimate responsibility in respect of audit quality within the firm. Any changes in the firm's audit procedures can only be made after authorisation has been given by one of the partners.

The partners are responsible for the following:

- developing assurance methodology and guidance to ensure compliance with auditing standards;
- maintaining the firm's technical manuals and communicating developments to the firm's partners and staff;
- helping maintain the firm's assurance practice at the highest standards prevailing in the profession, including the supervision of the Firm's auditing work;
- consulting with local office partners and other professionals seeking technical advice; and
- overseeing the firm's technical continuing professional education programmes.

The Compliance Principal is responsible for the following:

- monitoring of independence;
- monitoring the firm's auditing work;
- coordinating the professional performance staff and achieving standards that measure up to the firm's professional objectives; and
- evaluating the firm's quality controls policies and procedures.

4.2 Ethical requirements

The firm adheres to the provisions of the Code of Ethics issued by the Accountancy Board.

In instances where the firm's independence is threatened (other than those where we are not specifically allowed to act), an independent review is carried out by a partner other than the engagement partner in order to safeguard the firm. If this is not possible, other safeguards are adopted and if these are found to be inadequate the firm will resign from the post of auditor. All safeguards are agreed with the Ethics Partner.

Audit staff are encouraged to notify the Audit Engagement Partner of any potential threats to independence. It is the responsibility of the Audit Engagement Partner to notify the Ethics Partner of any breaches or potential problem areas.

The firm will only provide non-audit services to an audit client if the principles contained in the Code of Ethics

are not breached. Furthermore all partners other than the Engagement Partner who intend carrying out non-audit work for an audit client must notify the Audit Engagement Partner before any work commences so that they can assess the overall impact of ethical requirements on the audit engagement.

Annual declarations are made by all partners and staff to ensure compliance with relevant ethical requirements.

4.2 Acceptance and continuance of client relationships and specific engagements

Robust client and engagement acceptance procedures play a pivotal role in the firm's ability to deliver a professional and quality service.

Prior to the acceptance of any new client, certain procedures to assess the risks associated with that client must be carried out. These will include:

- consideration of the client's business including its geographical spread and the industry it operates in;
- evaluation of information concerning the client, its management and its owners including obtaining evidence of the identity of the owners and officers of the business;
- considering information regarding the character and reputation of the prospective client and key personnel;
- assessment of potential independence risks and potential conflicts of interest;
- if relevant, inquiry of the previous auditor regarding the reasons for the change in auditor and if there is any reason why we should not accept the appointment;
- assessment of our ability to serve the prospective client; and
- reviewing filings of the company, including prior year financial statements.

The acceptance of all clients requires an approval process that is appropriate to the perceived risk. "High risk" assurance clients require pre-approval by at least two partners.

The firm has in force appropriate safeguards to ensure that any familiarity threat arising from a long association with a client by either a partner or key staff member is reduced to an acceptable minimum level. The firm only

accepts or continues an assignment when it is certain that the client concerned does not lack integrity, and that it is competent to perform the required services and that it can comply with ethical standards and the Code of Ethics.

The Audit Engagement Partner completes the firm's client acceptance or re-appointment documentation before the start of every assignment. The relevant section of the firm's standard audit procedures are completed during the planning stage of the assignment.

The Audit Engagement Partner must consider on an on-going basis any information which arises in respect of an assignment and which would have had an impact on the decision to accept re-appointment.

4.4 Human resources

Human resources is a critical factor in our ability to provide professional services. In order to ensure that the firm has sufficient personnel with the capabilities, competence, and ethical standards necessary to provide quality audits in accordance with professional and legal requirements we have established clear policies and procedures addressing the following areas:

- recruitment
- performance evaluation
- capabilities and competence
- career development and promotion.

4.4.1 Recruitment

Policies and procedures for recruitment are designed to provide reasonable assurance that those employed possess the appropriate characteristics to enable them to deliver a high quality service and perform their duties with professional competence.

We work actively to ensure that diversity is embedded within the firm's culture, not just in principle but in practice. Inclusivity within the organisation, whether it is based on age, gender, ethnicity or physical capabilities, strengthens the firm's values, makes the firm more representative and more capable of providing a quality professional service.

We seek people with high levels of intelligence, stability, maturity, integrity, motivation, aptitude and leadership qualities appropriate to the role for which they are being engaged.

4.4.2 Performance evaluation

All staff members are subject to performance appraisal on a regular basis to evaluate the level of competence, monitor training and help them reach their full potential. Performance appraisal includes a review of each individual's contribution to the quality of services provided by the firm.

4.4.3 Capabilities and competence

Policies and procedures for assigning personnel to engagements are designed to provide a reasonable assurance that only those persons having an adequate training, proficiency and competence will perform the work.

A profile of staff's technical proficiency is obtained by review of work on previous engagements and personal knowledge.

In staffing an engagement, consideration is given to ensure that staff have the necessary technical knowledge and other skills appropriate to the size and nature of the planned work.

4.4.4 Career development and promotion

Staff career development is addressed on an on-going basis. Generally there is staff progression from an introductory staff level to supervisor, to manager, and then to senior manager. Staff are promoted to the next level only when they are prepared for the increased responsibilities that promotion entails.

Non-compliance with the firm's policies and professional standards is also recognised. Lack of compliance is reflected through additional training, delays in promotion or through dismissal for serious instances of non-compliance.

4.5 Engagement performance

4.5.1 Common methodology

Our policies and procedures are designed to ensure that audits meet all applicable professional standards, regulatory requirements and that the firm issues reports that are appropriate in the circumstances. To achieve this and to ensure consistency in the approach to auditing, BDO International has developed the common BDO Audit Methodology, related software tools and other standard forms of documentation. This methodology is fully compliant with International Auditing Standards and where appropriate these common processes are used by

BDO International member firms.

4.5.2 Supervision and review

We require all professional work to be supervised by staff members who have appropriate knowledge and experience. It is the responsibility of the relevant partner to ensure that related risks are identified and that decisions are taken by those with an appropriate level of authority. The relevant partner must also ensure that professional work is carried out efficiently and that it meets the firm's standards in all respects.

Our review procedures are designed to ensure efficient control of the audit as it progresses. At a granular level these are designed to ensure that:

- the work is performed in accordance with applicable standards and regulations;
- significant matters have been raised for further consideration and appropriately addressed;
- appropriate consultations have taken place;
- the planned work has where necessary been reviewed and that the objective of all planned work has been achieved;
- the work performed and evidence obtained supports the conclusions reached; and
- the documentation present on the audit file enables an experienced auditor to understand the significant matters arising on the audit as well as the nature, timing and extent of the procedure undertaken, the results of those procedures and the evidence obtained.

A concurring partner review is performed for audits of public interest and other high risk engagements. The concurring partner review will be familiar with the auditing and reporting practices used during the engagement, and be knowledgeable and familiar with the client's industry. They will be an experienced partner and not likely to be influenced by the views of a particular engagement partner.

4.5.3 Consultation

The firm encourages consultation with experienced partners and other specialists where appropriate.

4.6 Monitoring

Our policies and procedures concerning monitoring activities are designed to give the firm reasonable assurance that the firm's internal quality control system is operating efficiently and is complied with in practice.

Our quality control system includes an annual cold review of audit files to monitor compliance with the firm's policies, procedures and standards and to ensure that the work done to arrive at an opinion, or to support advice that has been given, is both adequate and properly documented.

The review consists of reviewing, on a sample basis, the working papers and reports of selected assurance engagements and documentation of compliance with our quality control policies and procedures. The sample is selected to ensure that at least one audit carried out by each audit partner is selected every year.

The Compliance Principal is responsible for carrying out these reviews, and monitoring and documenting the implementation of, and compliance with, any corrective action.

5. BDO Audit Approach

2010 saw the introduction of the new BDO Audit Approach, the Audit Process Tool (APT) and the new BDO Audit Manual. The APT facilitates performance and documentation of the audit in accordance with the new audit approach. This has been the largest project of its kind within BDO and the cooperation among colleagues from numerous member firms is an extraordinary example of the strength of the BDO network, which will be further enhanced by having a consistent approach to audits across the world, supporting the vision of one network, one methodology and one tool.

The launch was followed by a robust training programme with a series of international train the trainer courses around the world. These courses encompassed a thorough grounding in the methodology supplemented by significant 'hands on' training using the APT. The feedback from these sessions was extremely positive and attendees have already started transferring the knowledge gained on the courses by rolling out the training locally and beginning to use the tool on their audit engagements. At BDO Malta training courses were held in late October and early November 2010.

6. Quality assurance

The last quality assurance review of the firm took place in 2010. The firm received the final copy of the quality assurance review report in January 2011.

7. Public interest entities audited by the firm

During 2010 the firm has carried out a statutory audit of:

Sparkasse Bank Malta p.l.c.
Central Life Limited

The firm also audits a number of companies that may be considered of significance in view of their size, operations or ownership. These are treated as public interest entities on a voluntary basis, in so far as regulatory requirements are concerned.

8. Audit firm's independence

As already stated above, the firm has in place policies aimed at ensuring that it is compliant with acceptable independent standards and good practice. These policies cover the firm, the partners and administrative staff.

It is the firm's policy to encourage and support the continued professional education of all professional staff, including staff members engaged in auditing. It is through continued professional education that the firm can ensure that a high standard in the quality of work produced.

These policies and procedures adopted by the firm meet, and in many instances exceed, those that are promulgated by the Accountancy Board and the Malta Institute of Accountants. These include:

- an annual declaration undertaken by all partners and staff;
- audit file quality control reviews examining a selection of audit files covering all Responsible Individuals on an annual basis; and
- other monitoring activities targeting specific aspects of audit independence.

All these monitoring and review activities were operational during the past financial year.

9. Continued professional education

The firm has a policy of facilitating and encouraging continuing education as an important means of developing knowledge and maintaining and improving the quality of its services and of motivating and retaining its personnel.

The continuing education program is comprised of training sessions organised by the firm specifically designed to meet its needs, by the BDO International network as well as external training by relevant professional bodies. Certain courses are mandatory and others are optional. The CPE requirements for professional auditors in Malta are also factored in to the program.

Hands-on training is given to all new recruits on the BDO audit methodologies, tools and processes. As already stated above, a high-level of training was given to all staff with the introduction of the new BDO Audit Process Tool.

More experienced personnel and partners are encouraged to constantly update and deepen their technical knowledge. Developing management and interpersonal skills are also very important for this group.

Continuing professional education is also a factor taken into account for the yearly evaluation of audit staff and the assessment of their career potential within the firm. We are committed to developing and maintaining the highest possible standards of technical competence through our own development programmes.

10. Financial information

The financial statements of BDO Malta for the year ended 31 December 2010 are still in the process of being finalised. The turnover figures presented below are preliminary and may be subject to change.

	2010		2009	
	€	%	€	%
Statutory audit	454,300	19	341,840	18
Tax & advisory	1,899,100	81	1,569,295	82
	<u>2,353,400</u>	<u>100</u>	<u>1,911,135</u>	<u>100</u>

John J Attard
Compliance Principal

28 March 2011

There is BDO Member Representation in each of the following countries*

*this list is current as of 1 January 2011

ALGERIA - ANGOLA - ARGENTINA - AUSTRALIA - AUSTRIA - AZERBAIJAN - BAHAMAS - BAHRAIN
BELARUS - BELGIUM - BOLIVIA - BOTSWANA - BRAZIL - BRITISH VIRGIN ISLANDS - BULGARIA
CAMBODIA - CANADA - CAPE VERDE ISLANDS - CAYMAN ISLANDS - CHILE - CHINA (PRC)- COLOMBIA
COMOROS - COSTA RICA - CROATIA - CYPRUS - CZECH REPUBLIC - DENMARK & FAROE ISLANDS
DOMINICAN REPUBLIC - DUTCH CARIBBEAN (ARUBA - CURACAO - ST MAARTEN) - EAST AFRICA
(BURUNDI - KENYA - RUANDA - TANZANIA - UGANDA) - EASTERN CARIBBEAN (ST LUCIA - ST VINCENT
& THE GRENADINES) - ECUADOR - EGYPT - EL SALVADOR - ESTONIA - FINLAND - FRANCE - GEORGIA
GERMANY - GIBRALTAR - GREECE - GREENLAND - GUATEMALA - GUERNSEY - HONG KONG
HUNGARY - INDIA - INDONESIA - IRELAND - ISLE OF MAN - ISRAEL - ITALY - JAMAICA - JAPAN
JERSEY - JORDAN - KAZAKHSTAN - KOREA - KOSOVO - LATVIA - LEBANON - LIECHTENSTEIN
LITHUANIA - LUXEMBOURG - MACAO - MADAGASCAR - MALAYSIA - MALTA - MAURITIUS - MEXICO
MOROCCO - MAZAMBIQUE - NAMIBIA - NETHERLANDS - NETHERLANDS - NEW ZEALAND - NIGERIA
NORWAY - OMAN - PAKISTAN - PANAMA - PARAGUAY - PERU - PHILIPPINES - POLAND - PORTUGAL
QATAR - ROMANIA - RUSSIA - SAN MARINO - SAUDI ARABIA - SENEGAL - SERBIA - SEYCHELLES
SINGAPORE - SLOVAK REPUBLIC - SLOVENIA - SOUTH AFRICA - SPAIN - SRI LANKA - SURINAME
SWEDEN - SWITZERLAND - TAIWAN - TRINIDAD AND TOBAGO - TUNISIA - TURKEY - TURKMENISTAN
UKRAINE - UAE - UNITED KINGDOM - UNITED STATES OF AMERICA - URUGUAY - VENEZUELA
VIETNAM - ZAMBIA - ZIMBABWE

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